

FINANCIAL AUDIT
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT
OF THE

DEPARTMENT OF EDUCATION

October 1, 1997 through September 30, 1999

EXECUTIVE DIGEST

DEPARTMENT OF EDUCATION

INTRODUCTION	This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Department of Education for the period October 1, 1997 through September 30, 1999.
AUDIT PURPOSE	This financial audit of the Department was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> .
BACKGROUND	<p>The Department is responsible for managing numerous State and federally funded educational programs. During fiscal years 1998-99 and 1997-98, the Department had 16 major federal financial assistance programs and 2 major federal nonfinancial assistance (food commodities) programs. Of all the State departments, the Department of Education has the largest number of major federal programs.</p> <p>Individual offices have the responsibility for establishing and implementing grant and services program policies. The Bureau of Administrative and Support Services is</p>

* See glossary at end of report for definition.

responsible for accounting and financial reporting, including the preparation and submission of most federal program cost reports.

The Department's major funding sources were the State General Fund and the U.S. Departments of Education and Agriculture. Department General Fund expenditures and operating transfers out for fiscal years 1998-99 and 1997-98 were approximately \$1.2 billion and \$1.1 billion, respectively. In addition, the Department received and distributed approximately \$44.7 million and \$45.3 million in federal nonfinancial assistance (food commodities) for fiscal years 1998-99 and 1997-98, respectively.

As of September 18, 1999, the Department had 469 employees.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

Conclusion: We expressed an unqualified opinion* on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

Audit Objective: To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the

* See glossary at end of report for definition.

financial schedules, and on its internal control* over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses*.

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified a reportable condition* related to internal auditor functions (Finding 1).

Audit Objective: To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These related to cash management, Commodity Supplemental Food Program dual participation, Migrant Education grant payments, Migrant Education program documentation, federal Adult Basic Education and English as a Second Language program participation, and Vocational Education

* See glossary at end of report for definition.

maintenance of effort (Findings 2 through 5, 7, and 8). **However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to internal auditor functions, cash management, Commodity Supplemental Food Program dual participation, Migrant Education grant payments, Migrant Education program documentation, Child and Adult Care Food Program advance payments, federal Adult Basic Education and English as a Second Language program participation, Vocational Education maintenance of effort, Tech-Prep Education articulation agreements, and federal program performance reports (Findings 1 through 10).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Department of Education for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Department operations also include the School Aid Fund, a special revenue fund, which is audited and reported on separately.

ORGANIZATIONAL CHANGE

On October 18, 1999, the Governor issued Executive Order 1999-12, which transferred the State's adult education, vocational education, and vocational-technical education programs from the Department of Education to the Michigan Department of Career Development (MDCD).

As a result, effective January 1, 2000, MDCE became responsible for the following major federal programs included in the scope of this audit: Adult Education - State Grant Program (CFDA #84.002), Vocational Education - Basic Grants to States (CFDA #84.048), and Tech-Prep Education (CFDA #84.243). Also, 60 related program staff transferred from the Department of Education to MDCE. To provide a report that is complete, accurate, and objective in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, we have addressed our findings and corresponding recommendations for these programs to the Department of Education, which administered these programs during our audit period. However, MDCE has prepared the corrective action plan for these findings (Findings 7 through 10) and will be responsible for compliance.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 10 findings and 10 corresponding recommendations. The Department of Education's corrective action plan indicates that, for the 6 recommendations it will be responsible for, it agrees with 5 and disagrees with the other 1. Also, the Department's plan indicates that it has complied with 2 recommendations and will comply with the other 4. MDCE's corrective action plan indicates that it agrees with the 4 recommendations it will be responsible for, has complied with 1, and will comply with the other 3.

As disclosed in the Department of Education's summary schedule of prior audit findings, the Department had fully corrected 11 of the 17 prior Single Audit* findings and had not corrected or had partially corrected the other 6 findings.

* See glossary at end of report for definition.

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December 21, 2000

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Department of Education for the period October 1, 1997 through September 30, 1999.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, organizational change, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial schedules, on compliance and on internal control over financial reporting, and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133. This report also contains the Department of Education financial schedules and notes to the financial schedules, supplemental financial schedules, other schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. The agency preliminary response is contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

The Department of Education was established under the Executive Organization Act of 1965. The Department is headed by the elected eight-member State Board of Education established by the 1963 State Constitution. The principal executive officer is the Superintendent of Public Instruction, who is appointed by the Board.

Individual offices have the responsibility for establishing and implementing grant and services program policies. The Bureau of Administrative and Support Services is responsible for accounting and financial reporting, including the preparation and submission of most federal program cost reports.

The Department is responsible for managing numerous State and federally funded educational programs. During fiscal years 1998-99 and 1997-98, the Department had 16 major federal financial assistance programs and 2 major federal nonfinancial assistance (food commodities) programs. Of all the State departments, the Department of Education has the largest number of major federal programs.

The Department's major funding sources were the State General Fund and the U.S. Departments of Education and Agriculture. Department General Fund expenditures and operating transfers out for fiscal years 1998-99 and 1997-98 were approximately \$1.2 billion and \$1.1 billion, respectively. In addition, the Department received and distributed approximately \$44.7 million and \$45.3 million in federal nonfinancial assistance (food commodities) for fiscal years 1998-99 and 1997-98, respectively.

As of September 18, 1999, the Department had 469 employees.

Audit Objectives and Conclusions, Audit Scope, Organizational Change,
and Agency Responses and Prior Audit Follow-up

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Department of Education had the following objectives:

1. To audit the Department's financial schedules, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1999 and September 30, 1998.

Conclusion: We expressed an unqualified opinion on the Department's financial schedules. In addition, we expressed an unqualified opinion on the Department's supplemental financial schedules, including the schedule of expenditures of federal awards, in relation to the financial schedules taken as a whole.

2. To assess and report on the Department's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial schedules, and on its internal control over financial reporting, based on our audit of the financial schedules.

Conclusion: Our assessment of compliance did not disclose any instances of noncompliance that could have a direct and material effect on the financial schedules. Also, our assessment of internal control over financial reporting did not disclose any material weaknesses.

In addition, our assessment indicated that the Department was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control. However, we identified a reportable condition related to internal auditor functions (Finding 1).

3. To assess and report on the Department's compliance with requirements applicable to each major federal program and on its internal control over

compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program disclosed instances of noncompliance that are required to be reported under OMB Circular A-133. These related to cash management, Commodity Supplemental Food Program dual participation, Migrant Education grant payments, Migrant Education program documentation, federal Adult Basic Education and English as a Second Language program participation, and Vocational Education maintenance of effort (Findings 2 through 5, 7, and 8). **However, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses.** We did identify reportable conditions related to internal auditor functions, cash management, Commodity Supplemental Food Program dual participation, Migrant Education grant payments, Migrant Education program documentation, Child and Adult Care Food Program advance payments, federal Adult Basic Education and English as a Second Language program participation, Vocational Education maintenance of effort, Tech-Prep Education articulation agreements, and federal program performance reports (Findings 1 through 10).

The findings related to our assessment of compliance and internal control over compliance applicable to each major federal program are contained in Section III of the schedule of findings and questioned costs*.

Audit Scope

Our audit scope was to examine the financial and other records of the Department of Education for the period October 1, 1997 through September 30, 1999. Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

* See glossary at end of report for definition.

Department operations also include the School Aid Fund, a special revenue fund, which is audited and reported on separately.

We considered the Department's internal control over compliance applicable to each major federal program and assessed the Department's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on the Department's summary schedule of prior audit findings. The Department's major federal programs are identified in Section I of the schedule of findings and questioned costs.

Organizational Change

On October 18, 1999, the Governor issued Executive Order 1999-12, which transferred the State's adult education, vocational education, and vocational-technical education programs from the Department of Education to the Michigan Department of Career Development (MDCD). As a result, effective January 1, 2000, MDCD became responsible for the following major federal programs included in the scope of this audit: Adult Education - State Grant Program (CFDA #84.002), Vocational Education - Basic Grants to States (CFDA #84.048), and Tech-Prep Education (CFDA #84.243). Also, 60 related program staff transferred from the Department of Education to MDCD. To provide a report that is complete, accurate, and objective in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, we have addressed our findings and corresponding recommendations for these programs to the Department of Education, which administered these programs during our audit period. However, MDCD has prepared the corrective action plan for these findings (Findings 7 through 10) and will be responsible for compliance.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 10 findings and 10 corresponding recommendations. The Department of Education's corrective action plan indicates that, for the 6 recommendations it will be responsible for, it agrees with 5 and disagrees with the other 1. Also, the Department's plan indicates that it has complied with 2 recommendations and will comply with the other 4. MDCD's corrective action plan indicates that it agrees

with the 4 recommendations it will be responsible for, has complied with 1, and will comply with the other 3.

The Department of Education's and MDCD's corrective action plans, which are included in this report, were prepared by the Departments as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Departments to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in the Department of Education's summary schedule of prior audit findings, the Department had fully corrected 11 of the 17 prior Single Audit findings and had not corrected or had partially corrected the other 6 findings.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Schedules

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? None reported

Noncompliance material to the financial schedules? No

Federal Awards

Internal control over major programs:

Material weaknesses identified? No

Reportable conditions identified that are not considered to be material weaknesses? Yes

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)? Yes

Identification of major programs:

<i>CFDA</i> Number	Name of Federal Program or Cluster
10.550	Food Distribution
10.553, 10.555, and 10.556	Child Nutrition Cluster
10.558	Child and Adult Care Food Program
10.565	Commodity Supplemental Food Program
84.002	Adult Education - State Grant Program
84.010	Title I Grants to Local Educational Agencies
84.011	Migrant Education - Basic State Grant Program
84.027	Special Education - Grants to States
84.048	Vocational Education - Basic Grants to States
84.173	Special Education - Preschool Grants
84.181	Special Education - Grants for Infants and Families with Disabilities
84.186	Safe and Drug-Free Schools and Communities - State Grants
84.213	Even Start - State Educational Agencies
84.243	Tech-Prep Education

84.276	Goals 2000 - State and Local Education Systematic Improvement Grants
84.281	Eisenhower Professional Development State Grants
84.298	Innovative Education Program Strategies
84.318	Technology Literacy Challenge Fund Grants
Dollar threshold used to distinguish between type A and type B programs: \$5,259,646	
Auditee qualified as a low-risk auditee*? No	

Section II: Findings Related to the Financial Schedules

We did not report any audit findings related to the financial schedules.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

* See glossary at end of report for definition.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (310001)

1. Internal Auditor Functions

U.S. Department of Agriculture	CFDA: All Programs
U.S. Department of Labor	CFDA: All Programs
National Science Foundation	CFDA: All Programs
U.S. Department of Veterans Affairs	CFDA: All Programs
U.S. Department of Education	CFDA: All Programs
U.S. Department of Health and Human Services	CFDA: All Programs
Corporation for National and Community Service	CFDA: All Programs
	Questioned Costs: \$0

The Department of Education should improve its internal control pertaining to the oversight of operations by giving higher priority to the internal auditor functions that are specified in Section 18.1486(4) of the *Michigan Compiled Laws* .

Internal control is a process designed to provide reasonable assurance regarding financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. A properly designed internal control supports effective methods to achieve program goals and increases efficiency by reducing the total resources needed to ensure that assets are safeguarded and that liabilities to third parties, such as federal grantor agencies, are avoided.

Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws* and Title 34, Part 80 of the *Code of Federal Regulations (CFR)* state that Department management is responsible for the Department's internal control. These responsibilities include implementing a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; effective and efficient internal control techniques; and a system to ensure compliance with

applicable laws and regulations. Also, management is to ensure that the system is functioning as described and is modified as appropriate for changes in the condition of the system.

Section 18.1486(4) of the *Michigan Compiled Laws* establishes specific functions for the internal auditor to perform. These functions include conducting audits of the Department's financial activities, reviewing the design of and compliance with decentralized internal control, reviewing Department programs and operations for efficiency, and keeping the Department's top management fully and currently informed about problems and deficiencies relating to the administration of the Department's programs and operations and the necessity for and progress of corrective actions.

During our audit period, the Department had a decentralized internal control that delegated to various organizational units the responsibility to provide administrative support services and to establish and carry out State and federal grant management functions. Such an organizational structure makes the internal auditor functions a critical component in the internal control.

Our review of the Department's internal control and its internal auditor functions disclosed:

- a. The Department did not provide the oversight necessary to ensure that the internal control for various organizational units was properly designed. As a result, several programs continued to operate with internal control weaknesses after management had agreed that the weaknesses existed and program staff had indicated corrective action had been taken. For example:
 - (1) The Department had not fully implemented procedures to ensure that payments made to federal Adult Education – State Grant Program subrecipients* were based on actual student participation as required by federal regulations (Finding 7).

* See glossary at end of report for definition.

- (2) The Department did not apply procedures designed to detect and prevent dual participation in similar federal programs as required by federal regulations (Finding 3).
 - (3) The Department had not followed established procedures to ensure that federal Migrant Education – Basic State Grant Program documentation supported the annual performance report figures submitted to the U.S. Department of Education (USDOE) (Finding 5).
- b. The Department often did not monitor its decentralized units to ensure that weaknesses in their internal control, identified in prior audits, were corrected as indicated in the Department's audit responses.

An internal control model developed by the federally sponsored Committee of Sponsoring Organizations (COSO) of the Treadway Commission specifies that:

Internal auditors play an important role in evaluating the effectiveness of control systems, and contribute to ongoing effectiveness. Because of organizational position and authority in an entity, an internal audit function often plays a significant monitoring role.

Our follow-up reviews sometimes disclosed that corrective action was not taken or that the action taken was not effective. The Department's internal auditor maintained a log of internal control weaknesses, reported in our prior audits, and program staff efforts to correct weaknesses. However, the internal auditor often did not determine the accuracy of reported corrective action, which is a critical function in a decentralized organization.

- c. The Department did not fully comply with the statutory requirements pertaining to the duties and functions that are to be performed by the internal auditor.

The Department's internal auditor performed many of the functions specified by law, including reviewing and recommending activities designed to ensure compliance with directives from the Office of Financial Management,

Department of Management and Budget, and recommending policies for the Department's operations to prevent and detect fraud and abuse. However, because of limited resources, the Department has also assigned various other duties for the internal auditor to perform, including the monitoring of the audits of federal grant subrecipients and improving the State School Aid Fund pupil membership audit process, which are not specified by law. Although necessary, these other duties are not internal auditor functions under either the *Michigan Compiled Laws* or professional standards. Performing these other duties has precluded the internal auditor from conducting audits of the Department's financial activities and performing reviews and audits of the Department programs operated with federal funds to help ensure compliance with federal laws and regulations.

We recognize that, in response to our prior audit, the Department implemented corrective action for many of the findings and corresponding recommendations, including follow-up on certain recommendations by the internal auditor. As a result, we do not consider this finding to be a material weakness as reported in the prior audit. However, we conclude that enhanced internal control, with full compliance with statutory internal auditor requirements, could have prevented several repeated and new audit findings and could have reduced the overall control environment risk related to the administration of federal programs.

RECOMMENDATION

We recommend that the Department improve its internal control pertaining to the oversight of operations by giving higher priority to the internal auditor functions that are specified in Section 18.1486(4) of the *Michigan Compiled Laws*.

FINDING (310002)

2. Cash Management

U.S. Department of Agriculture	CFDA: 10.558 Child and Adult Care Food Program	
Award Number:	Award Period:	Questioned Costs:
19984N1019	10/1/97 - 9/30/98	\$ 38,961

U.S. Department of Education	CFDA: 84.010 Title I Grants to Local Educational Agencies	
Award Number:	Award Period:	Questioned Costs:
S010A60022	7/1/96 - 9/30/97	\$ 96
S010A70022	7/1/97 - 9/30/98	\$ 1,605
S010A980022	7/1/98 - 9/30/99	\$ 5,199

U.S. Department of Education	CFDA: 84.027 Special Education - Grants to States	
Award Number:	Award Period:	Questioned Costs:
H027A60110	7/1/96 - 9/30/97	\$ 53
H027A70110	7/1/97 - 9/30/98	\$ 770
H027A980110	7/1/98 - 9/30/99	\$ 1,814

U.S. Department of Education	CFDA: 84.048 Vocational Education - Basic Grants to States	
Award Number:	Award Period:	Questioned Costs:
V048A50022	7/1/95 - 9/30/96	\$ 11
V048A70022	7/1/97 - 9/30/98	\$ 262
V048A980022	7/1/98 - 9/30/99	\$ 675

The Department did not monitor the date that federal funds were actually received to determine if funds were requested in compliance with the State/federal Cash Management Improvement Act (CMIA) agreement and did not report exceptions to the Michigan Department of Treasury.

CMIA was enacted to achieve greater efficiency, effectiveness, and equity in the transfer of funds for selected major federal programs. The State's CMIA agreement with the U.S. Department of Treasury specifies clearance patterns* required before federal funds can be drawn. Any variances from the agreement are to be reported to the Michigan Department of Treasury for resolution. Our review of 12 Department draws disclosed that the Department made 6 (50%) draws early because the prescribed clearance pattern was not achieved. Using the interest rate specified in CMIA, we estimate that the State may owe the U.S. Department of Treasury \$10,485. Also, the Department did not detect and therefore did not report these early draws to the Michigan Department of Treasury.

* See glossary at end of report for definition.

In addition, as described in Finding 6, the Department made excessive cash advances to a Child and Adult Care Food Program sponsor. Using the interest rate specified in CMIA, we estimate that the State may owe the U.S. Department of Treasury \$38,961.

RECOMMENDATION

We recommend that the Department monitor the date that federal funds are received to determine if funds were requested in compliance with the State/federal CMIA agreement and that the Department report exceptions to the Michigan Department of Treasury.

FINDING (310003)

3. Commodity Supplemental Food Program (CSFP) Dual Participation

U.S. Department of Agriculture	CFDA: 10.565 Commodity Supplemental Food Program
Award Number: 19984Y8005	Award Period: 10/1/97 - 9/30/98
	Questioned Costs: \$437,267
Award Number: 19994Y8005	Award Period: 10/1/98 - 9/30/99
	Questioned Costs: \$406,284

The Department's internal control did not help ensure that procedures for the detection and prevention of dual participation in similar federal programs were being completed as required by federal regulations.

The federal Women, Infants, and Children Farmers' Market Nutrition Program (WIC Program), administered by the Department of Community Health (DCH), provides services similar to those provided by CSFP. Federal regulation 7 *CFR* 247.7 requires the State to be responsible, in conjunction with local agencies, for the detection and prevention of dual participation in CSFP and the WIC Program. In most of the State, subrecipients operated CSFP in conjunction with the WIC Program and dual participation is prevented during the enrollment process. However, CSFP's largest subrecipient has separate enrollment process for both CSFP and the WIC Program.

The Department has an agreement with DCH that requires DCH to test for dual participation in CSFP and the WIC Program. Under the terms of this agreement, the Department is to provide DCH with a record of all CSFP participants on a monthly basis. DCH is to compare this record against its record of WIC Program participants and return a listing of any dual participants to the Department.

The Department did not provide DCH with a record of CSFP participants for 23 of the 24 months during fiscal years 1997-98 and 1998-99 and, therefore, DCH could not test for dual participation. As of September 1999, the Department had not provided DCH with a record of CSFP participants since September 1998. DCH's tests of the September 1998 data disclosed that 11.7% of the CSFP participants had also been enrolled in the WIC Program. CSFP case loads in the service areas where the WIC Program is operated separately were 17,695 and 16,878 for fiscal years 1997-98 and 1998-99, respectively. Expenditures for this service area were approximately \$3.7 million and \$3.5 million for fiscal years 1997-98 and 1998-99, respectively.

A similar exception was noted in the prior audit. In a response dated September 17, 1998, the Department responded that it agreed with the exception and would monitor CSFP agencies to detect and prevent dual participation.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT IMPROVE ITS INTERNAL CONTROL TO HELP ENSURE THAT PROCEDURES FOR THE DETECTION AND PREVENTION OF DUAL PARTICIPATION IN SIMILAR FEDERAL PROGRAMS ARE COMPLETED AS REQUIRED BY FEDERAL REGULATIONS.

FINDING (310004)

4. Migrant Education Grant Payments

U.S. Department of Education	84.011 Migrant Education - Basic State Grant Program
Award Number: S011A980022	Award Period: 7/1/98 - 9/30/99
	Questioned Costs: \$35,357

The Department's internal control did not ensure that local educational agencies (LEAs) were reimbursed for only Migrant Education Program services provided.

Standard Operating Procedure Manual item E-4 requires the Office of Field Services (OFS) to develop Migrant Education Program grant criteria and make funding formula recommendations to the State Board of Education. Following the Board's approval, OFS is responsible for preparing the proper coding materials to permit LEAs to draw federal grant funds, to monitor grant payments, and to close completed grants.

In June 1999, an LEA informed OFS that it would not operate an approved summer program. However, OFS staff did not reduce the LEA's authorized grant amount, monitor ongoing grant payments, and verify the propriety of payments when closing the grant. As a result, the LEA inappropriately requested and received a payment of \$35,357 for its discontinued program. Based on our review, the Department followed up and collected the overpayment and reimbursed the USDOE.

At the time of our audit, the Department did not monitor OFS's compliance with prescribed grant management internal control.

RECOMMENDATION

We recommend that the Department enhance its internal control to help ensure that LEAs are reimbursed for only Migrant Education Program services provided.

FINDING (310005)

5. Migrant Education Program Documentation

U.S. Department of Education	84.011 Migrant Education - Basic State Grant Program
Award Number: S011A980022	Award Period: 7/1/98 - 9/30/99
	Questioned Costs: \$129,900

The Department's internal control did not ensure that Migrant Education Program documentation supported the annual performance report figures submitted to the USDOE.

In accordance with federal law 20 *United States Code* 6394(c)(7) and other federal program guidance, the Department submits an annual performance report to the USDOE. The Department is required to report the total number of eligible migrant students and various counts of students actually served. The USDOE uses these amounts as a basis to calculate awards to be made to the Department in subsequent years. To complete the annual performance report on a timely basis, OFS includes estimates of students actually served. However, OFS did not adjust the estimates to actual students served.

Our review disclosed:

- a. OFS understated the number of regular school year students served by approximately 100 and understated the number of summer program students served by 55 for school year 1998-99. This would result in the State receiving an underallocation of approximately \$55,754 from the USDOE for the 2000-01 grant year.
- b. OFS understated the number of regular school year students served by approximately 90 and understated the number of summer program students served by 1 for school year 1997-98. This would result in the State receiving an underallocation of approximately \$36,997 from the USDOE for the 1999-2000 grant year.

A similar exception was reported in the prior audit which resulted in an overallocation of approximately \$129,900 from the USDOE for the 1998-99 grant year. In a response dated October 26, 1998, the Department responded that it agreed with the exception and would comply. However, the Department did not amend its Migrant Education Program performance report or its draw of federal funds, and it did not verify OFS's reported compliance with the prior audit finding.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENHANCE ITS INTERNAL CONTROL TO HELP ENSURE THAT MIGRANT EDUCATION PROGRAM DOCUMENTATION SUPPORTS THE ANNUAL PERFORMANCE REPORT FIGURES SUBMITTED TO THE USDOE.

FINDING (310006)

6. Child and Adult Care Food Program Advance Payments

U.S. Department of Agriculture	10.558 Child and Adult Care Food Program
Award Number: 19984N1019	Award Period: 10/1/97 - 9/30/98
	Questioned Costs: \$0

The Department's internal control did not provide for the timely processing of adjustments to Child and Adult Care Food Program advance payments in accordance with federal regulations.

Federal regulation 7 *CFR* 226.10 requires the State agency to provide advance payments to each sponsor electing to receive such payments. To ensure that sponsors do not receive excessive advance payments, the State agency must compare monthly claims against advances. If it is determined that advances are in excess of sponsor need, the State agency shall either demand full repayment or adjust subsequent payments.

Effective July 1, 1997, the U.S. Department of Agriculture implemented a new two-tier reimbursement system. The Department's payment system (J20) could not process advances based on the U.S. Department of Agriculture's revisions. As a result, the Department calculated and tracked advance payments and paid claim data on a computerized spreadsheet. In October 1997, in anticipation of a new automated system becoming operational, Child and Adult Care Food Program staff were instructed not to process advance payment adjustments. In October 1998, staff were subsequently instructed to process advance payment adjustments quarterly.

As of October 31, 1998, 1 of 8 program sponsors receiving advance payments, had accumulated excess payments of approximately \$1.1 million. Subsequently, the Department's quarterly adjustments have maintained advance payments within a federal allowable range.

RECOMMENDATION

We recommend that the Department implement internal control to provide for the timely processing of adjustments to Child and Adult Care Food Program advance payments in accordance with federal regulations.

FINDING (310007)

7. Federal Adult Basic Education (ABE) and English as a Second Language (ESL) Program Participation

U.S. Department of Education	CFDA: 84.002 Adult Education - State Grant Program
Award Number: V002A70023 V002A980023	Award Period: 7/1/97 - 9/30/98 7/1/98 - 9/30/99
	Questioned Costs: Not Determinable

The Department's internal control did not ensure that federal ABE/ESL Program subrecipients were allocated federal funds based on actual participation in accordance with the Program's State Plan. As a result, some subrecipients received federal funds that were either greater or less than their allowable reimbursement.

The Program's State Plan provides for ABE/ESL funds to be allocated to subrecipients based on actual participation. Initially, the Department allocates ABE/ESL funds to subrecipients based on estimated participation. Subsequently, payments are to be adjusted from estimated to actual based on reported counts of full-time equivalent (FTE) students participating in five categories. Eligible students include: (1) persons functioning below the ninth grade level who have not graduated, (2) persons enrolled in English as a Second Language, (3) persons functioning below the ninth grade level who have graduated, (4) persons who are institutionalized, and (5) persons who cannot be counted for State school aid.

For fiscal year 1997-98, the Department did not verify the accuracy of reported FTE participation amounts submitted by subrecipients for federal funding. In response to findings in our prior audits, the Department enhanced its FTE reporting methodology and implemented a limited FTE verification process in fiscal year 1998-99. This verification process required subrecipients to submit an explanation and/or documentation to support variances if reported ABE/ESL participation was more than 5% greater than the audited State school aid membership count. However, the Department did not follow up on either reported participation variances of up to 5% more than the audited membership count or variances that were less than the audited membership count. Although State school aid membership participation is often greater than ABE/ESL participation, based on broader eligibility standards, audited school aid membership data is a key internal control element for determining actual ABE/ESL participation.

To determine the accuracy of ABE/ESL payments, we reviewed, on a test basis, reported ABE/ESL and audited State school aid participation data. Our review disclosed:

- a. In fiscal year 1997-98, reported ABE/ESL participation (2,373) exceeded audited State school aid participation (2,358) by 15 FTE students (1%) for the 19 subrecipients reviewed. Individually, 7 subrecipients reported 46 (12%) more ABE/ESL FTE students (431) than State school aid FTE students (385), and 3 subrecipients reported 48.61 (5%) fewer ABE/ESL FTE students (940.00) than State school aid FTE students (988.61). Potential overpayments and underpayments to the subrecipients were approximately \$23,810 and \$25,277, respectively.
- b. In fiscal year 1998-99, reported ABE/ESL participation (2,181.10) exceeded audited State school aid participation (1,523.15) by 657.95 FTE students (43%) for the 12 subrecipients reviewed. Individually, 9 subrecipients reported 711.01 (50%) more ABE/ESL FTE students (2,143.00) than State school aid FTE students (1,431.99), and 1 subrecipient reported 52.76 (78%) fewer ABE/ESL FTE students (15.00) than State school aid FTE students (67.76).

The Department followed up on 7 of the 9 subrecipients with potential overpayments who had variances of more than 5% greater than the audited State school aid membership count and resolved the variances or collected overpayments. For the other 2 subrecipients, potential ABE/ESL overpayments for 11 FTE students were approximately \$6,875. Also, 1 subrecipient had potential underpayments of approximately \$32,975.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT ENHANCE ITS INTERNAL CONTROL TO HELP ENSURE THAT FEDERAL ABE/ESL PROGRAM SUBRECIPIENTS ARE ALLOCATED FEDERAL FUNDS BASED ON ACTUAL PARTICIPATION IN ACCORDANCE WITH THE PROGRAM'S STATE PLAN.

FINDING (310008)

8. Vocational Education Maintenance of Effort

U.S. Department of Education	CFDA: 84.048 Vocational Education - Basic Grants to States
Award Number: V048A70022	Award Period: 7/1/97 - 9/30/98
	Questioned Costs: \$107,954

The Department's internal control did not monitor compliance with the Vocational Education - Basic Grants to States Program administrative maintenance of effort requirements.

Federal regulation 34 *CFR* 403.181(c) requires that a state provide from nonfederal sources for state administration an amount that is not less than the amount provided for the preceding fiscal or program year. In fiscal year 1997-98, the Department provided Program administrative funding that was \$107,954 less than the prior fiscal year.

Department staff stated that they were not aware of and did not monitor the maintenance of effort requirement for compliance.

RECOMMENDATION

We recommend that the Department establish internal control to monitor compliance with the Vocational Education - Basic Grants to States Program administrative maintenance of effort requirements.

FINDING (310009)

9. Tech-Prep Education Articulation Agreements

U.S. Department of Education	CFDA: 84.243 Tech-Prep Education
Award Number: V243A70093 V243A980093	Award Period: 7/1/97 - 9/30/98 7/1/98 - 9/30/99
	Questioned Costs: \$0

The Department's internal control did not ensure that consortia applying for Tech-Prep Education Program grants had articulation agreements.

Federal regulation 34 *CFR* 406.32(b)(1) requires a Tech-Prep Education Program application to contain an articulation agreement between all participants in a consortium. This agreement is to help ensure that students are provided a nonduplicative sequence of progressive achievement leading to competencies in a Tech-Prep Education Program.

The Office of Career and Technical Preparation did not require consortia to submit articulation agreements with their applications. Instead, the Office required the consortia to maintain articulation agreements on file. However, the Office did not verify that agreements were on file when conducting field visits.

In response to our request, the Department could not obtain articulation agreements from 10 (100%) of 10 randomly selected consortia to determine compliance with federal regulations. During our audit period, 39 consortia received grants each fiscal year.

RECOMMENDATION

We recommend that the Department improve its internal control to help ensure that consortia applying for Tech-Prep Education Program grants have articulation agreements.

FINDING (310010)

10. Federal Program Performance Reports

U.S. Department of Education	CFDA: 84.048 Vocational Education - Basic Grants to States
Award Number: V048A70022	Award Period: 7/1/97 - 9/30/98
	Questioned Costs: \$0

U.S. Department of Education	CFDA: 84.243 Tech-Prep Education
Award Number: V243A70093	Award Period: 7/1/97 - 9/30/98
	Questioned Costs: \$0

The Department's internal control did not ensure that required federal program performance reports were submitted on a timely basis.

Federal regulations 34 *CFR* 80.40 and 80.41 require the Department to submit performance reports to the USDOE on an annual basis relating to the Vocational Education - Basic Grants to States and the Tech-Prep Education Programs.

Our review of the annual reports due during the audit period disclosed that the fiscal year 1997-98 performance reports had not been submitted on a timely basis. The performance reports had been submitted 56 days after they were due.

The Office of Career and Technical Preparation stated that it had not completed the performance reports on a timely basis.

A similar exception was noted in the prior audit for different federal programs. In its preliminary response to the prior audit, the Department stated that it agreed with

the exception. However, the Department did not monitor the Office's compliance with federal program performance reporting requirements.

RECOMMENDATION

WE AGAIN RECOMMEND THAT THE DEPARTMENT IMPROVE ITS INTERNAL CONTROL TO HELP ENSURE THAT REQUIRED FEDERAL PROGRAM PERFORMANCE REPORTS ARE SUBMITTED ON A TIMELY BASIS.

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Schedules

August 30, 2000

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

We have audited the accompanying schedule of General Fund revenue and operating transfers and the schedule of sources and disposition of General Fund authorizations of the Department of Education for the fiscal years ended September 30, 1999 and September 30, 1998. These financial schedules are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial schedules based on our audit. The governmental operations of the Department are accounted for principally in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department of Education's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and operating transfers and the sources and disposition of authorizations of the Department of Education for the fiscal years ended September 30, 1999 and September 30, 1998 on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 30, 2000 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial schedules, consisting of the schedule of certain General Fund assets and the schedule of certain General Fund liabilities, are presented for purposes of additional analysis and are not a required part of the Department's financial schedules referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial schedules and, in our opinion, is fairly stated, in all material respects, in relation to the financial schedules taken as a whole.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance and
on Internal Control Over Financial Reporting

August 30, 2000

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

We have audited the General Fund financial schedules of the Department of Education for the fiscal years ended September 30, 1999 and September 30, 1998 and have issued our report thereon dated August 30, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a

condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the State Board of Education, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

Independent Auditor's Report on Compliance With
Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in
Accordance With OMB Circular A-133

August 30, 2000

Mr. Arthur E. Ellis, Chairperson
State Board of Education
Hannah Building
Lansing, Michigan

Dear Mr. Ellis:

Compliance

We have audited the compliance of the Department of Education with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Department of Education complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the fiscal years ended September 30, 1999 and September 30, 1998. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2 through 5, 7, and 8.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 10.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State Board of Education, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

DEPARTMENT OF EDUCATION
Schedule of General Fund Revenue and Operating Transfers
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
REVENUE		
Federal agencies	\$ 753,446,237	\$ 707,883,076
Local agencies	59,600	28,234
Licenses and permits	11,278,379	10,158,202
Miscellaneous	<u>7,591,736</u>	<u>3,045,484</u>
Total Revenue	<u>\$ 772,375,952</u>	<u>\$ 721,114,997</u>
OPERATING TRANSFERS		
From School Aid Fund	\$ 3,407,542	\$ 6,949,508
From Gifts, Bequests, and Deposits Investment Fund	<u>330,922</u>	<u>123,346</u>
Total Operating Transfers	<u>\$ 3,738,464</u>	<u>\$ 7,072,854</u>
Total Revenue and Operating Transfers	<u><u>\$ 776,114,416</u></u>	<u><u>\$ 728,187,851</u></u>

The accompanying notes are an integral part of the financial schedules.

DEPARTMENT OF EDUCATION
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Years Ended September 30

	<u>1999</u>	<u>1998</u>
SOURCES OF AUTHORIZATIONS		
General purpose appropriations (Note 2a)	\$ 469,890,941	\$ 424,330,446
Balances carried forward	5,944,011	5,340,691
Restricted financing sources (Note 2b)		
Federal revenue	752,972,319	707,147,145
Other	<u>22,255,996</u>	<u>16,648,876</u>
Total	<u>\$ 1,251,063,267</u>	<u>\$ 1,153,467,158</u>
DISPOSITION OF AUTHORIZATIONS		
Expenditures and operating transfers out (Note 2c)	<u>\$ 1,243,302,239</u>	<u>\$ 1,144,820,978</u>
Balances carried forward:		
Multi-year projects	\$ 319,250	\$ 525,000
Encumbrances (Note 2d)	2,624,550	3,175,361
Restricted revenue - not authorized (Note 2e)	<u>2,997,430</u>	<u>2,243,650</u>
Total balances carried forward	<u>\$ 5,941,230</u>	<u>\$ 5,944,011</u>
Balances lapsed	<u>\$ 1,819,798</u>	<u>\$ 2,702,169</u>
Total	<u>\$ 1,251,063,267</u>	<u>\$ 1,153,467,158</u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the governmental operations of the Department of Education for the fiscal years ended September 30, 1999 and September 30, 1998. The governmental operations of the Department are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The notes accompanying these financial schedules relate directly to the Department. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, and Compensated Absences.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and operating transfers and the sources and disposition of authorizations for the Department of Education's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either the Department or the State's General Fund in accordance with generally accepted accounting principles.

c. Amounts Due From Federal Agencies

For most federally funded programs, revenue is accrued in the same period as related obligations are recorded. In certain programs, financed

entirely by the federal government, expenditures and related revenue are recognized only to the extent of billings received by fiscal year-end. This treatment understates assets and liabilities and expenditures and revenue; however, there is no impact on the fund balance of the State's General Fund.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. General purpose appropriations: Original appropriation and any supplemental appropriations that are financed by General Fund/general purpose revenue.
- b. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted intrafund expenditure reimbursements to finance Department programs as detailed in the appropriations acts. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - not authorized.
- c. Operating transfers out: Included within the amounts reflected as disposition of authorizations are total authorized operating transfers to the State's School Aid Fund of \$419,597,281 and \$375,967,757 in fiscal years 1998-99 and 1997-98, respectively. The operating transfers represent supplemental funding to local school districts in connection with the annual appropriations act of the Department.
- d. Encumbrances: Authorizations carried forward to finance payments for goods and services ordered in the old fiscal year but not received by fiscal year-end. These authorizations are generally limited to obligations funded by general purpose appropriations.

- e. Restricted revenue - not authorized: Revenue that, by statute, is restricted for use to a particular Department program or activity. However, the expenditure of the restricted revenue is subject to annual legislative appropriation. Examples of significant carry-forwards of this type are Safety Education Fund revenue, certification fees, and private occupational school license fees.

Note 3 Contingencies and Commitments

Durant v State of Michigan (Durant II): In a decision rendered October 19, 1999, the Court of Appeals held that the State School Aid Act complied with the State's obligations under Article 9, Section 29 of the Michigan Constitution to fund the State-mandated portions of the special education, special education transportation, and school lunch programs at the levels required by the Headlee Amendment.

The Court of Appeals further held that certain sections of the State School Aid Act violated Article 9, Section 11 of the Michigan Constitution. Article 9, Section 11 of the Michigan Constitution provides, in part, that beginning in the State's fiscal year 1995-96, and each fiscal year thereafter, the State shall guarantee that the total State and local per pupil revenue for school operating purposes for each local school district shall not be less than the 1994-95 total State and local per pupil revenue for school operating purposes. The Court held that under Article 9, Section 11, the Legislature must appropriate the State portion of the per pupil revenue for school operating purposes to local school districts as unrestricted school aid. Thus, the Court held that, to the extent the Legislature appropriated restricted funds to pay for special education and special education transportation from funds that were guaranteed to local school districts as unrestricted aid, the amendments to the State School Aid Act violated Article 9, Section 11.

The Court of Appeals denied plaintiffs' requests for mandamus, injunctive relief, and monetary damages and, as described above, granted declaratory relief only. The Court also held that plaintiffs may petition for costs and reasonable attorney fees as allowed under Article 9, Section 32 of the Michigan Constitution. Under the court rules, the parties had until November 9, 1999, to appeal the decision to the Supreme Court or to move for rehearing on the Court of Appeals. Neither party appealed the decision or moved for rehearing. Plaintiffs' petition for costs and attorney fees was granted by the Court of

Appeals on January 14, 2000, in the amount of \$400,000. On February 4, 2000, the State filed an application for leave to appeal and motion for peremptory reversal of the January 14, 2000 Court of Appeals order in the Supreme Court. On February 9, 2000, pursuant to the State's request, the Court of Appeals stayed the effect of the January 14, 2000 order, pending resolution of the appeals to the Supreme Court or further order of the Court of Appeals.

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SUPPLEMENTAL FINANCIAL SCHEDULES

DEPARTMENT OF EDUCATION
Schedule of Certain General Fund Assets
As of September 30

	<u>1999</u>	<u>1998</u>
ASSETS		
Due from federal agencies for:		
National School Lunch grants	\$ 24,905,902	\$ 27,549,998
Title I Program	4,548,817	2,389,944
Adult Basic Education	1,800,786	1,327,573
Goals 2000		995,610
Other miscellaneous accounts and activities	2,938,018	2,770,826
Transfers to other State agencies	<u>3,012,000</u>	<u>2,920,897</u>
Total Due From Federal Agencies	<u>\$ 37,205,523</u>	<u>\$ 37,954,849</u>
Other current assets:		
Travel advances	\$ 5,185	\$ 4,253
Not sufficient funds checks receivable	425	576
Prepaid expenditures	14,980	27,247
Other miscellaneous accounts receivable	<u>39,599</u>	<u>19,098</u>
Total Other Current Assets	<u>\$ 60,189</u>	<u>\$ 51,174</u>

This schedule of certain General Fund assets is not representative of a balance sheet and is not intended to report financial condition. The amounts presented include only those assets for which the Department is directly responsible. The schedule excludes other assets, such as equity in Common Cash and cash in-transit, which are accounted for centrally by the State.

DEPARTMENT OF EDUCATION
Schedule of Certain General Fund Liabilities
As of September 30

	<u>1999</u>	<u>1998</u>
LIABILITIES		
Accounts payable		
Adult Basic Education	\$ 2,251,836	\$ 607,372
National School Lunch grants	24,197,491	26,662,177
Drivers Education grants	7,055,228	6,179,697
Title I Program	3,815,583	1,928,335
State General Fund/general purpose	7,200,564	8,147,266
Other	<u>3,826,736</u>	<u>1,743,653</u>
Total Accounts Payable	\$ 48,347,439	\$ 45,268,500
Deferred revenue	\$ 139,633	\$ 107,499

This schedule of certain General Fund liabilities is not representative of a balance sheet and is not intended to report financial condition. The amounts presented include only those liabilities for which the Department is directly responsible. The schedule excludes other liabilities, such as warrants outstanding, which are accounted for centrally by the State.

DEPARTMENT OF EDUCATION
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1997 through September 30, 1999

For the Fiscal Year Ended September 30, 1998					
Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<u>Financial Assistance</u>					
<u>U.S. Department of Agriculture</u>					
Direct Programs					
Child Nutrition Cluster					
School Breakfast Program	10.553		\$ 33,249	\$ 29,421,807	\$ 29,455,056
National School Lunch Program	10.555		272	130,843,681	130,843,953
Special Milk Program for Children	10.556			967,754	967,754
Total Child Nutrition Cluster			\$ 33,521	\$ 161,233,241	\$ 161,266,762
Child and Adult Care Food Program	10.558		1,090	49,354,628	49,355,718
State Administrative Expenses for Child Nutrition	10.560		2,225,393	(7,977)	2,217,416
Nutrition Education and Training Program	10.564		2,613	(18,652)	(16,039)
Commodity Supplemental Food Program	10.565		39,126	4,480,257	4,519,384
Emergency Food Assistance Program	10.568		10,079	1,516,148	1,526,227
Total U.S. Department of Agriculture			\$ 2,311,822	\$ 216,557,646	\$ 218,869,468
<u>U.S. Department of Labor</u>					
Pass-Through Program					
Michigan Department of Career Development					
Job Training Partnership Act	17.250	A67068008750	\$ 172,158	\$ 1,458,063	\$ 1,630,220
Total U.S. Department of Labor			\$ 172,158	\$ 1,458,063	\$ 1,630,220
<u>National Science Foundation</u>					
Direct Program					
Mathematical and Physical Sciences	47.049		\$ 11,280	\$ 886,277	\$ 897,557
Total National Science Foundation			\$ 11,280	\$ 886,277	\$ 897,557
<u>U.S. Department of Veterans Affairs</u>					
Direct Program					
Veterans Information and Assistance	64.115		\$ 245,465	\$	\$ 245,465
Total Veterans Affairs			\$ 245,465	\$ 0	\$ 245,465
<u>U.S. Department of Education</u>					
Direct Programs					
Contract With National Center for Education Statistics	84.RN94136023 (3)		\$ 12,417	\$	\$ 12,417
Adult Education - State Grant Program	84.002		809,713	10,661,561	11,471,274
Education of Children With Disabilities in State Operated or Supported Schools	84.009			(954)	(954)
Title I Grants to Local Educational Agencies	84.010		1,801,412	329,254,782	331,056,194
Migrant Education - Basic State Grant Program	84.011		446,493	11,516,461	11,962,953
Title I Program for Neglected and Delinquent Children	84.013			540,450	540,450
Services for Children With Deaf-Blindness	84.025		145,366		145,366
Media and Captioning Services for Individuals With Disabilities	84.026		9,235		9,235
Special Education - Grants to States	84.027		3,935,365	86,958,765	90,894,130
Special Education - Personnel Development and Parent Training	84.029			205,209	205,209
Vocational Education - Basic Grants to States	84.048		1,928,889	32,255,151	34,184,040
Vocational Education - Consumer and Homemaking Education	84.049		(5,250)	(1,488)	(6,738)
Leveraging Educational Assistance Program	84.069			2,108,036	2,108,036
Migrant Education - Coordination Program	84.144		689	328,653	329,342
Chapter 2 - State Block Grants	84.151		60	(974,996)	(974,936)
Immigrant Education	84.162		3,066	436,422	439,488
Eisenhower Mathematics and Science Education - State Grants	84.164			(14,283)	(14,283)
Special Education - Preschool Grants	84.173		244,205	11,018,554	11,262,759
Special Education - Grants for Infants and Families With Disabilities	84.181		428,765	9,306,509	9,735,274
Byrd Honors Scholarships	84.185			1,074,480	1,074,480
Safe and Drug-Free Schools and Communities - State Grants	84.186		1,163,566	14,264,330	15,427,896
Bilingual Education Support Services	84.194		91,883		91,883
Education for Homeless Children and Youth	84.196		193,036	944,502	1,137,538
Even Start - State Educational Agencies	84.213		98,319	3,780,135	3,878,454
Fund for the Improvement of Education	84.215			157,282	157,282
Capital Expenses	84.216			557,018	557,018
State School Improvement Grants	84.218			23,307	23,307
Tech-Prep Education	84.243		85,795	3,353,296	3,439,090

This schedule continued on next page.

For the Fiscal Year Ended September 30, 1999				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
	\$ 12,289	\$ 31,732,462	\$ 31,744,751	\$ 61,199,807
		133,833,403	133,833,403	264,677,356
		949,499	949,499	1,917,252
	\$ 12,289	\$ 166,515,364	\$ 166,527,653	\$ 327,794,415
	101,065	44,861,715	44,962,780	94,318,498
	2,720,474		2,720,474	4,937,891
	6,259	28,040	34,299	18,260
	97,610	4,214,166	4,311,776	8,831,160
	46,029	1,487,013	1,533,041	3,059,268
	<u>\$ 2,983,726</u>	<u>\$ 217,106,298</u>	<u>\$ 220,090,024</u>	<u>\$ 438,959,493</u>
A73699008750	\$ 104,937	\$ 3,106,155	\$ 3,211,092	\$ 4,841,312
	<u>\$ 104,937</u>	<u>\$ 3,106,155</u>	<u>\$ 3,211,092</u>	<u>\$ 4,841,312</u>
	\$ 4,128	\$ 250,000	\$ 254,128	\$ 1,151,686
	<u>\$ 4,128</u>	<u>\$ 250,000</u>	<u>\$ 254,128</u>	<u>\$ 1,151,686</u>
	\$ 306,771	\$ (20)	\$ 306,751	\$ 552,216
	<u>\$ 306,771</u>	<u>\$ (20)</u>	<u>\$ 306,751</u>	<u>\$ 552,216</u>
	\$ 3,163	\$ 12,664,765	\$ 3,163	\$ 15,580
	686,392		13,351,157	24,822,432
			0	(954)
	2,422,640	327,366,105	329,788,745	660,844,939
	77,947	11,465,366	11,543,313	23,506,266
		814,333	814,333	1,354,783
	126,863		126,863	272,229
	5,407		5,407	14,642
	4,446,409	116,803,583	121,249,992	212,144,122
		72,932	72,932	278,141
	2,052,554	32,592,363	34,644,917	68,828,957
		(1,285)	(1,285)	(8,023)
		1,055,732	1,055,732	3,163,768
		221,806	221,806	551,148
		(26,991)	(26,991)	(1,001,927)
	138	1,138,614	1,138,753	1,578,240
			0	(14,283)
	123,130	12,385,731	12,508,861	23,771,620
	319,748	16,471,795	16,791,543	26,526,817
		1,299,038	1,299,038	2,373,518
	1,596,859	15,119,110	16,715,970	32,143,866
	56,502		56,502	148,385
	125,677	946,556	1,072,233	2,209,771
	120,666	4,774,720	4,895,386	8,773,841
			0	157,282
		6,844	6,844	563,862
		(1,675)	(1,675)	21,632
	85,545	3,329,260	3,414,805	6,853,895

DEPARTMENT OF EDUCATION
Schedule of Expenditures of Federal Awards (1)
For the Period October 1, 1997 through September 30, 1999
Continued

Federal Agency/Program	CFDA (2) Number	For the Fiscal Year Ended September 30, 1998			
		Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276		\$ 882,650	\$ 16,111,232	\$ 16,993,882
Goals 2000 - Assessment Development and Evaluation Grants	84.279		172,523		172,523
Eisenhower Professional Development State Grants	84.281		359,309	10,003,930	10,363,239
Charter Schools	84.282			2,659,801	2,659,801
Innovative Education Program Strategies	84.298		1,198,770	9,680,896	10,879,666
Technology Literacy Challenge Fund Grants	84.318		312,333	5,706,064	6,018,397
Advanced Placement Incentive Program	84.330				
Comprehensive School Reform Demonstration	84.332				
Total Direct Programs			\$ 14,318,608	\$ 561,915,105	\$ 576,233,713
Pass-Through Program					
Michigan Department of Career Development					
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	H126A990030	105,781		105,781
Total U.S. Department of Education			\$ 14,424,389	\$ 561,915,105	\$ 576,339,494
U.S. Department of Health and Human Services					
Direct Programs					
Grants to States for Planning and Development of Dependent Care Programs	93.673		\$	\$ (649)	\$ (649)
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		515,970	444,236	960,206
Total Direct Programs			\$ 515,970	\$ 443,587	\$ 959,557
Pass-Through Program					
Family Independence Agency					
Child Care and Development Block Grant	93.575	93.575	19,393	716,006	735,399
Total U.S. Department of Health and Human Services			\$ 535,363	\$ 1,159,593	\$ 1,694,956
Corporation for National and Community Service					
Direct Program					
Learn and Serve America - School and Community Based Programs	94.004		\$ 70,103	\$ 482,441	\$ 552,544
Total Corporation for National and Community Service			\$ 70,103	\$ 482,441	\$ 552,544
Total Financial Assistance			\$ 17,770,579	\$ 782,459,126	\$ 800,229,704
Nonfinancial Assistance					
U.S. Department of Agriculture					
Direct Programs					
Food Distribution (4)	10.550		\$	\$ 28,274,669	\$ 28,274,669
Commodity Supplemental Food Program (4)	10.565			17,073,189	17,073,189
Total U.S. Department of Agriculture			\$ 0	\$ 45,347,858	\$ 45,347,858
Total Nonfinancial Assistance			\$ 0	\$ 45,347,858	\$ 45,347,858
Total Expenditures of Federal Awards			\$ 17,770,579	\$ 827,806,984	\$ 845,577,562

(1) Basis of Presentation: This schedule includes the federal grant activity of the Department of Education and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial schedules. In certain programs, financed entirely by the federal government, expenditures and related revenue are recognized only to the extent of billings received by fiscal year-end. This treatment understates assets and liabilities and expenditures and revenues; however, there is no impact on the fund balance of the State's General Fund.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

(3) CFDA number not available. Number derived from federal agency number and contract number.

(4) Value of Commodities in Storage: The amounts reported as distributed to subrecipients for nonfinancial assistance for Food Distribution (CFDA #10.550) and the Commodity Supplemental Food Program (CFDA #10.565) represent the value of commodities distributed during each fiscal year and do not include the value of commodities received and in storage at September 30, 1998 and September 30, 1999. The value of commodities in storage was approximately \$3.5 million and \$4.8 million as of September 30, 1999 and September 30, 1998, respectively. The value was estimated by multiplying the quantity of the commodities in storage by their current value as designated by the U.S. Department of Agriculture.

For the Fiscal Year Ended September 30, 1999				Total Expended and Distributed for the Two-Year Period
Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed	
	\$ 1,171,915	\$ 19,839,159	\$ 21,011,074	\$ 38,004,955
			0	172,523
	775,163	11,929,964	12,705,127	23,068,366
	35,190	1,848,323	1,883,514	4,543,315
	1,337,537	9,215,650	10,553,187	21,432,853
	501,932	18,800,608	19,302,540	25,320,937
	31,085		31,085	31,085
	<u>8,267</u>	<u>505,858</u>	<u>514,125</u>	<u>514,125</u>
	\$ 16,110,733	\$ 620,638,265	\$ 636,748,998	\$ 1,212,982,711
H126A990030	<u>111,700</u>		<u>111,700</u>	<u>217,481</u>
	<u>\$ 16,222,434</u>	<u>\$ 620,638,265</u>	<u>\$ 636,860,699</u>	<u>\$ 1,213,200,193</u>
	\$	\$	\$ 0	\$ (649)
	<u>453,800</u>	<u>295,884</u>	<u>749,684</u>	<u>1,709,890</u>
	\$ 453,800	\$ 295,884	\$ 749,684	\$ 1,709,241
93.575	<u>29,579</u>	<u>916,445</u>	<u>946,024</u>	<u>1,681,423</u>
	<u>\$ 483,379</u>	<u>\$ 1,212,329</u>	<u>\$1,695,708</u>	<u>\$3,390,664</u>
	\$ 52,631	\$ 452,608	\$ 505,239	\$ 1,057,783
	<u>\$ 52,631</u>	<u>\$ 452,608</u>	<u>\$ 505,239</u>	<u>\$ 1,057,783</u>
	<u>\$ 20,158,006</u>	<u>\$ 842,765,636</u>	<u>\$ 862,923,642</u>	<u>\$ 1,663,153,346</u>
	\$	\$ 28,068,497	\$ 28,068,497	\$ 56,343,166
		16,645,502	16,645,502	33,718,691
	<u>\$ 0</u>	<u>\$ 44,713,999</u>	<u>\$ 44,713,999</u>	<u>\$ 90,061,857</u>
	<u>\$ 0</u>	<u>\$ 44,713,999</u>	<u>\$ 44,713,999</u>	<u>\$ 90,061,857</u>
	<u>\$ 20,158,006</u>	<u>\$ 887,479,635</u>	<u>\$ 907,637,641</u>	<u>\$ 1,753,215,203</u>

OTHER SCHEDULES

DEPARTMENT OF EDUCATION
Summary Schedule of Prior Audit Findings
As of August 30, 2000

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 10

Finding: The Department did not develop and implement a proper internal control structure for Personnel-Payroll Information System for Michigan (PPRISM) functions.

Comments: The Department has implemented proper internal control for PPRISM functions.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 12

Finding: The Department did not maintain adequate internal control over its decentralized mail opening and cash receipts process as required by the Department of Management and Budget Administrative Guide and the Department Standard Operating Procedure Manual.

Comments: The Department has implemented some controls over its decentralized mail opening and cash receipts process based on a cost-benefit analysis.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 17

Finding: The Department did not comply with prescribed fixed asset control and financial reporting requirements.

Comments: The Department is now in compliance with prescribed fixed asset control and financial reporting requirements.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 3

Finding: The Department's internal control structure did not ensure that funding for local migrant education projects was allocated to local educational agencies (LEAs) in accordance with the Migrant Education Program's approved State Plan, that funding formulas had been approved by the State Board of Education and the U.S. Department of Education (USDOE), or that the basis used for the allocations to LEAs was documented.

Comments: The Department has implemented controls to ensure proper approvals of the migrant funding formula.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 5

Finding: The Department's internal control structure did not help ensure that Safe and Drug-Free Schools and Communities - State Grants Program subrecipients complied with federal maintenance of effort requirements.

Comments: The Department now includes the Program in its maintenance of effort calculations.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 6

Finding: The Department's internal control structure did not help ensure that all Commodity Supplemental Food Program (CSFP) funds were distributed as required by federal regulations; that distributions were accurately reported to Food and Consumer Services, U.S. Department of Agriculture; and that documentation was retained to support CSFP payments.

Comments: The Department has implemented controls to ensure that all CSFP funds are distributed as required, that distributions are accurately reported, and that documentation is retained.

Audit Period: October 1, 1995 through September 30, 1997
Finding Number: 9
Finding: The Department's internal control structure did not ensure that personnel-payroll cost distributions to certain federal and State programs were accurate and properly documented in accordance with federal and Department requirements.
Comments: The Department has implemented a time study to ensure that personnel-payroll cost distributions to federal and State programs are accurate and properly documented.

Audit Period: October 1, 1995 through September 30, 1997
Finding Number: 13
Finding: The Department's internal control structure did not require all Department employees involved in the subrecipient grant application and award process to complete nonconflict of interest statements.
Comments: The Department's internal control now requires all Department employees involved in the subrecipient grant application and award process to complete nonconflict of interest statements.

Audit Period: October 1, 1995 through September 30, 1997
Finding Number: 14
Finding: The Department did not perform required oversight and monitoring of intermediate school districts (ISDs) participating in the Infants and Families With Disabilities Program to determine that the ISDs complied with federal regulations.
Comments: The Department now performs the required oversight and monitoring of ISDs participating in the Program to determine that the ISDs complied with federal regulations.

Audit Period: October 1, 1995 through September 30, 1997
Finding Number: 15
Finding: The Department did not monitor all of its subrecipients in accordance with the Single Audit Act of 1984 and U.S. Office of

Management and Budget Circulars A-128 and A-133 to determine that the subrecipients complied with federal laws and regulations.

Comments: The Department is caught up with its subrecipient monitoring process.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 16

Finding: The Department did not document compliance with federal regulations requiring that private nonprofit school students be provided an opportunity for equitable participation in certain USDOE programs.

Comments: The Department is in compliance with federal regulations requiring that private nonprofit school students be provided an opportunity for equitable participation in all USDOE programs.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 1

Finding: The Department should improve its internal control structure pertaining to the oversight of operations by giving higher priority to the internal auditor functions that are specified in Section 18.1486(4) of the *Michigan Compiled Laws*.

Comments: The Department disagrees with the comprehensive nature of the finding. The Department's first priority is to provide adequate oversight of the \$10 billion of State school aid payments and \$900 million of federal funds. The Department will continue to increase internal audit activities as resources permit.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 2

Finding: The Department's internal control structure did not ensure that federal Adult Basic Education (ABE) Program subrecipients were allocated federal funds based on actual participation in accordance with the ABE State Plan.

Comments: The Department has implemented an ongoing review process. For fiscal year 1998-99, positive variances greater than 5% were reviewed. Negative variances were not reviewed as they would not result in overclaims of federal funds. For fiscal year 1999-2000, all variances will be reviewed.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 4

Finding: The Department's internal control structure did not help ensure that Migrant Education Program documentation was retained to support the annual performance report figures submitted to the USDOE or that Program records were adequately safeguarded.

Comments: The Department has implemented controls to ensure that Migrant Education Program documentation is retained but needs to implement controls to help ensure that Program documentation supports the annual performance report figures submitted to the USDOE.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 7

Finding: The Department's internal control structure did not help ensure that procedures for the detection and prevention of dual participation in similar federal assistance programs were being completed as required by federal regulations.

Comments: The Department has not yet fully implemented controls to help ensure that procedures for the detection and prevention of dual participation in similar federal assistance programs are being completed.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 8

Finding: The Department did not report to the Michigan Department of Treasury the time delays in requests for federal funds.

Comments: The Department has implemented a new system that substantially eliminated the problem experienced during fiscal years 1995-96 and 1996-97.

Audit Period: October 1, 1995 through September 30, 1997

Finding Number: 11

Finding: The Department's internal control structure did not ensure that required program activity and statistical reports were submitted on a timely basis.

Comments: Except for *CFDA* #84.048 and #84.243, the Department has implemented controls to ensure that required program activity and statistical reports are submitted on a timely basis.

DEPARTMENT OF EDUCATION

Corrective Action Plan

As of December 11, 2000

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 310001
Finding Title: Internal Auditor Functions
Management Views: The Department continues to disagree with the comprehensive nature of this finding. The Office of Audits' first priority is to provide adequate oversight of the \$900 million in federal funds and \$11 billion of State school aid. The Department has implemented partial corrective actions for similar prior audit recommendations and will continue to increase internal audit activities as resources permit.
Corrective Action: The Department will continue to increase internal audit activities as resources permit.
Anticipated Completion Date: No specific target date.
Responsible Individual: Kathy Weller, Director, Office of Audits
Telephone Number (517) 335-6858

Finding Number: 310002
Finding Title: Cash Management
Management Views: The Department agrees with the recommendation and has complied. However, it would like to communicate that minor fluctuations in the issuance date of warrants and processing time for grantee refunds may still pose occasional problems with the timing of cash draws, even under the Department's improved process. The large volume of federal payments made by the Department, in addition to the lack of human and system resources, makes it impractical to schedule draws based upon individual payments. The improved

process of specifying due dates of our weekly draws and monitoring grant payment issuance dates is a practical means of complying with the Cash Management Improvement Act.

Corrective Action:

U.S. Department of Education (USDOE) draws are now requested with a specific due date of the cash transfer, thus ensuring the proper receipt date of funds. In addition, grant payment batch processing is monitored and if delays in processing the warrants exist, the federal cash draw due date is adjusted accordingly.

Anticipated Completion Date: Completed July 2000

Responsible Individual: Lori Schomisch, Acting Director, Office of Financial Management and Administrative Services
Telephone Number (517) 335-0539

Finding Number: 310003

Finding Title: Commodity Supplemental Food Program (CSFP) Dual Participation

Management Views: The Department agrees with the recommendation and has complied.

Corrective Action: We worked with the subrecipient to ensure that it shares CSFP participant information with agencies operating the federal Women, Infants, and Children Farmers' Market Nutrition Program (WIC Program) within the same areas. In all other areas of the State, CSFP and the WIC Program are sponsored by the same agencies and the WIC Program has direct access to the enrollment data, which would prevent dual enrollment.

Anticipated Completion Date: Completed November 17, 2000. Will be verified in 2001.

Responsible Individual: Peggy Pawelek Brown, Manager, Food and Nutrition Program
Telephone Number (517) 373-4014

Finding Number:	310004
Finding Title:	Migrant Education Grant Payments
Management Views:	The Department agrees and will comply.
Corrective Action:	The Office of Field Services (OFS) will develop an internal protocol to follow whenever a local educational agency (LEA) decides not to operate an approved program. The protocol will specify that OFS's technical grants management staff be informed whenever regional staff become aware that an approved program will not be in operation. The protocol will specify that the technical grant management staff submit a request to the Department's Office of Financial Management and Administrative Services to reduce the LEA's authorized grant amount. All OFS staff will be informed regarding the implementation of this protocol as part of the December 12, 2000 OFS staff meeting.
Anticipated Completion Date:	December 12, 2000
Responsible Individual:	Dorothy VanLooy, Director, Office of Field Services Telephone Number (517) 241-3147

Finding Number:	310005
Finding Title:	Migrant Education Program Documentation
Management Views:	The Department agrees and will comply.
Corrective Action:	OFS will no longer be using estimates in reporting the total number of eligible migrant children and the number of migrant students served to the USDOE. The child counts submitted to the USDOE as a basis to calculate the State migrant education grant award will be based on the LEAs' electronic submission of migrant eligibility data for identified children and served students. Establishment of an earlier deadline for the LEAs' required submission of this data will enable OFS to submit actual, versus estimated, child counts to the USDOE. Dated printouts of the Michigan

Migrant Education Database System's child count reports will be kept on file to document the validity of the child counts submitted to the USDOE.

Anticipated Completion Date: February 22, 2001

Responsible Individual: Dorothy VanLooy, Director, Office of Field Services
Telephone Number (517) 241-3147

Finding Number: 310006

Finding Title: Child and Adult Care Food Program Advance Payments

Management Views: The Department agrees and will comply.

Corrective Action: All Program claims for the period beginning July 1997 through November 1999 have been reconciled. The delay was caused by insufficient notice from the U.S. Department of Agriculture of new requirements necessitating major programming changes and the need to run both old and new systems during the conversion. All claims beginning July 1997 through December 1999 required keypunching, which was tedious and had to be contracted out since the Department no longer had keypunch staff. Beginning with the January 2000 claims and beyond, the process is part of the new personal computer-based electronic system. However, reconciliation is a month-by-month process and we cannot begin the new system until the December 1999 claim is fully reconciled.

Anticipated Completion Date: January 31, 2001

Responsible Individual: Peggy Pawelek Brown, Manager, Food and Nutrition Program
Telephone Number (517) 373-4014

MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT (MDCD)

Corrective Action Plan

As of December 11, 2000

Finding Number: 310007

Finding Title: Federal Adult Basic Education (ABE) and English as a Second Language (ESL) Program Participation

Management Views: MD CD agrees and will comply.

The finding is based on separate federal and State legislation, which results in a different number of students being countable for each program. Comparison of these counts has limited relevance to the accuracy of federal full-time equivalent (FTE) funding at the local level. Federal funding is based solely on the regulations for allowing ABE students within the categories authorized by the federal Adult Education Act. State FTE student eligibility is based on Michigan's State School Aid Act and is different from the federal criteria.

Corrective Action: For fiscal year 1999-2000, program staff instigated a more detailed process and requested that all subrecipients provide information on a formal FTE/State aid FTE reconciliation form. This form allows subrecipients to identify differences between federal and State FTE counts, including reasons to explain both positive and negative variances. These reports will be reviewed and undocumented explanations will receive appropriate follow-up.

During fiscal year 2000-01, MD CD is implementing a major revision in the administration of the federal program under which reimbursements to subrecipients will be based on meeting performance measures. This change in the revised State Plan was approved

by the U.S. Department of Education in October 2000. Thus, future payments will not be based on FTE data. In the interim, MDCD will use the FTE reconciliation process.

Anticipated Completion Date: The process of receiving year-end reports for the 1999-2000 program year and following up FTE variances is expected to be completed in early 2001. The revised State Plan will be fully implemented by the end of fiscal year 2000-01.

Responsible Individual: Donna Miller, Business Manager, Adult Education and Spanish Speaking Affairs
Telephone Number (517) 373-8439

Finding Number: 310008

Finding Title: Vocational Education Maintenance of Effort

Management Views: MDCD agrees and has complied.

Corrective Action: MDCD will establish internal control to monitor compliance with the administrative maintenance of effort requirements.

Anticipated Completion Date: November 1, 2000. MDCD has added this requirement to the spreadsheet that records the administrative spending plan for this grant. An edit will be put in place that flags when the correct amount has not been met.

Responsible Individual: Patty Cantu, Supervisor, Office of Career and Technical Preparation Planning, Evaluation and Finance Unit
Telephone Number (517) 335-0361

Finding Number: 310009

Finding Title: Tech-Prep Education Articulation Agreements

Management Views: MDCD agrees and will comply.

Corrective Action: MDCD will require that each Tech-Prep consortium submit a sample articulation agreement with its application for funding. In addition, it will submit a list

of articulated programs and will be asked to keep copies of all articulation agreements in its files. We will verify that those agreements are on file when we conduct field visits.

Anticipated Completion Date: June 30, 2001. With the next fiscal year applications, the above-mentioned documentation will be collected and kept in the grant file.

Responsible Individual: Patty Cantu, Supervisor, Office of Career and Technical Preparation Planning, Evaluation and Finance Unit
Telephone Number (517) 335-0361

Finding Number: 310010

Finding Title: Federal Program Performance Reports

Management Views: MDCD agrees and will comply.

Corrective Action: We have implemented procedures to ensure the timely submission of federal performance reports. We are piloting a USDOE project for electronic submission of the reports. In addition, position descriptions have been rewritten assigning specific tasks related to the report.

Anticipated Completion Date: December 31, 2000

Responsible Individual: Patty Cantu, Supervisor, Office of Career and Technical Preparation Planning, Evaluation and Finance Unit
Telephone Number (517) 335-0361

Glossary of Acronyms and Terms

ABE	Adult Basic Education.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
CFR	<i>Code of Federal Regulations.</i>
clearance pattern	A frequency distribution showing the proportion of a total amount disbursed that is debited against the payor's bank account each day after the disbursement.
CMIA	Cash Management Improvement Act.
CSFP	Commodity Supplemental Food Program (<i>CFDA</i> #10.565).
DCH	Department of Community Health.
ESL	English as a Second Language.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
FTE	full-time equivalent.
HIV	human immunodeficiency virus.
internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting,

(b) effectiveness and efficiency of operations, and
(c) compliance with applicable laws and regulations.

ISDs intermediate school districts.

LEA local educational agency.

low-risk auditee As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and if it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

material noncompliance Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule amounts.

material weakness A condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

MDCD Michigan Department of Career Development.

OFS Office of Field Services.

OMB U.S. Office of Management and Budget.

PPRISM	Personnel-Payroll Information System for Michigan.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable. These costs are subject to disallowance by the federal government.
reportable condition	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal control that, in the auditor's judgment, could adversely affect the Department's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
Single Audit	A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of generally accepted auditing standards and the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>
subrecipient	A nonfederal entity that receives federal awards through another nonfederal entity to carry out a federal program.

unqualified opinion	An auditor's opinion in which the auditor states, without reservation, that the financial schedules are fairly presented in conformity with generally accepted accounting principles or an auditor's opinion in which the auditor states, without reservation, that the audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.
USDOE	U.S. Department of Education.
WIC Program	federal Women, Infants, and Children Farmers' Market Nutrition Program (administered by the Department of Community Health).